

EXPLANATION OF BUDGETARY POLICIES AND BASIS

INTRODUCTION

The City of Fort Lauderdale is a municipality chartered under the laws of the State of Florida in 1911, with the Charter being replaced by a special act of the Florida Legislature in 1957 and substantially revised in 1984.

The Annual Operating Budget is the result of efforts by the Mayor and four City Commissioners as well as City staff to allocate limited resources to best serve the needs of the City of Fort Lauderdale. The Budget therefore reflects the policies adopted by the Commission in response to the needs and concerns communicated to them by the residents of Fort Lauderdale. A Vision Statement has been adopted by the Commission (page 30) which summarizes the City's long-term aspirations. The City Commission has appointed a Budget Advisory Board of residents who provide recommendations to the Commission during the year as well as prior to adoption of the Annual Operating Budget.

FINANCIAL STRUCTURE

The Budget is designed to coordinate with the City's accounting system in order to facilitate an orderly and expeditious transition from budget adoption to financial control. A brief explanation of the types and purposes of budgeted funds is presented below.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of changes in financial position, rather than net income.

The following are the City's governmental fund types:

General Fund - The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Funds of this type in the Annual Operating Budget are the Fort Lauderdale Community Redevelopment Agency and Sunrise Key Safe Neighborhood District.

Debt Service Funds - Debt service funds are used to account for the annual payment of principal, interest, and other expenditures on general long-term debt, other than bonds payable from the operations of the enterprise funds. Funds of this type in the Annual Operating Budget are General Obligation Bonds, Excise Tax Bonds, Sunshine State Governmental Financing Commission, and Tax Increment Revenue Bonds.

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Capital Projects Funds - Capital projects funds are used to account for financial resources segregated for the acquisition or construction of major capital facilities other than those financed by enterprise operations. While the Annual Operating Budget includes the contribution to these funds from operating sources, the specific appropriations for these funds are only summarized in this document and are included in detail in a separate Capital Improvement Plan which is separately adopted by the City Commission.

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is on determination of net income. The following are the City's proprietary fund types:

Enterprise Funds - Enterprise funds are used to account for operations that provide a service to citizens, financed primarily by a user charge, and where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes. Funds of this type in the Annual Operating Budget include Sanitation, Water and Sewer, Central Regional Wastewater System, Parking System, Executive Airport, and Stormwater Management.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department to other departments of the City or to other governmental units. Funds of this type in the Annual Operating Budget are Insurance (Risk Management), Central Services (Print Shop, Radio and Telecommunications, and Central Stores), and Vehicle Rental (Fleet Management).

Other Fund Types

In the City's accounting system, there are other fund types which are not included in the Annual Operating Budget. These funds are fiduciary funds and account groups.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds. Funds of this type include the Cemeteries General Reserve Endowment and Perpetual Care Funds, General Employees and Police/Fire Pension Funds, the Arts and Science District Garage, and Deferred Compensation. The Annual Operating Budget reflects the operating budget contributions to the pension plans and deferred compensation. The City contributes no money to the cemeteries funds because the function has been privatized. The Arts and Science District Garage, while managed by the Parking staff in Administrative Services, is handled as a separate function on behalf of the Performing Arts Center Authority and the Downtown Development Authority.

Account Groups - Account groups are used to establish accounting controls and accountability for the City's general fixed assets and its general long-term debt. The City's account groups are General Fixed Assets and General Long-Term Debt. The Annual Operating Budget provides for the initial purchase and on-going maintenance of fixed assets. The Annual Operating Budget does not include compensated absences but does reflect the annual principal and interest amounts (debt service) on bonded debt.

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BASIS OF BUDGETING

The budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) with the following exceptions:

- Advances from other funds are presented as revenues.
- Encumbrances, advances to other funds, and principal on long-term debt of the proprietary funds are presented as expenditures or expenses.
- Depreciation and compensated absences are not budgeted in any funds.

The GAAP basis of accounting for governmental funds is modified accrual. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, i.e., measurable and available to finance the City's operations. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures (decreases in net financial resources) are recognized in the accounting period in which the related fund liabilities are incurred as long as it is measurable. An exception to this is long-term debt and the long-term portion of accumulated compensated absences and longevity pay, which are recognized when due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as a guide. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. The resources are reflected as revenues at the time of receipt or earlier if susceptible to accrual.

The major utility and franchise taxes are recorded as revenues when earned. Licenses and permits, fines and forfeitures, charges for services, and other revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Property taxes are recorded as revenues in the fiscal year levied, provided they are collected in the current period or within sixty days thereafter. Those remaining uncollected are recorded as deferred revenues. Investment income is recorded as revenue when earned. Special assessments are recorded as revenues only to the extent that individual installments are considered available.

The accrual basis of accounting is utilized by proprietary funds and pension and nonexpendable trust funds. Under the accrual basis, revenues are recognized in the accounting period in which they are earned, if objectively measurable, whether collected sooner or later. Expenses, not expenditures, are recognized when the benefits of costs incurred are deemed to have been consumed or expired. Long-term liabilities are accounted for through those funds. Depreciation of fixed assets (including capital outlay equipment purchased in the operating budget) are recorded in the accounts of these funds as well on the straight-line basis over the following useful lives: buildings (40-50 years), improvements (20-50 years), and equipment (3-15 years).

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DEVELOPMENT PROCESS

The budget process is guided by direction from the City Commission as it strives to meet the needs of the community at a reasonable price. Every Commission meeting involves deliberation about what services the City should provide, at what level, and at what price. The decisions made by the Commission throughout the year provide a general path for the budget deliberations to follow. City employees provide the perspective of professionals as to the most efficient and effective way to implement Commission policy. Residents have the opportunity to express their preferences for City services and funding mechanisms through formal budget public hearings as well as individual agenda items during the year. In addition, a Budget Advisory Board, comprised of residents and appointed by the Commission, meets regularly to develop recommendations for the budget.

The budget process is comprised of five stages, all of which are facilitated by the Budget Office: forecast, request, review, adoption, and monitoring. These steps often overlap one another because the City is always operating in one fiscal year while working on the next and there are many participants involved in the process.

The forecast stage is the beginning step in the development of the next year's budget. In December, budget staff outlines the options for the upcoming budget process using the City's Vision Statement (page 30) as an overall guide of the City's general direction. After review by the Assistant City Managers, a forecast of the General Fund for the next fiscal year is prepared. That forecast is typically presented to department heads and the City Manager in February. Based upon their review, the forecast is refined and the budget process is finalized with input from departmental budget coordinators. The forecast is presented to the City Commission traditionally in April or May at the same time that the Commission provides their priorities for budget development.

The request stage involves many participants. In February, departments are asked to submit proposals for reorganizing or utilizing temporary and part-time help. In March, budget staff provide training to employees who are traditionally involved in preparing their own department's budget requests. In April, all departments prepare their proposals using on-line budget preparation software and completing justifications on electronic forms. The information assembled also includes revenue projections for each department's area of responsibility.

The review stage provides for the evaluation of budget requests that have been submitted. Budget staff review the reorganization and position change proposals in March and load any changes into the automated payroll projection system. In May, the City Manager conducts formal budget reviews with each department to better understand their priorities and requests. In June, the management team (City Manager, Assistant City Managers, department heads and the Budget Office) meet, sometimes frequently, to hammer out the decisions necessary to prepare a proposed, balanced budget. Final decisions are made in July so that the City Manager can present his Budget Message to the Commission per City Charter requirements. The Budget Advisory Board, appointed by the Commission, reviews the City Manager's budget and applies the results of their yearlong research in making their recommendations to the Commission in August. The Board often submits recommendations outside of this time frame as consensus is reached on other issues.

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The adoption stage is the final step in the development of the budget. It begins with the City Manager presenting a comprehensive proposal for the coming fiscal year. In July, the Commission accepts the City Manager's proposal and directs that a preliminary millage rate be calculated and forwarded to Broward County for inclusion in the State-required "Truth in Millage" (TRIM) notice sent to all property owners. The TRIM notice is sent in August and provides the taxpayer with the taxable value of their property, the proposed millage rates for all taxing jurisdictions, and the date, time, and location for the first public hearing. The City Commission holds the first hearing and tentatively adopts the millage rates and the budget. A TRIM advertisement is placed in the City's newspaper of record before the final public hearing. That advertisement provides a budget summary, information about the final public hearing, and a notice of tax increase if applicable. The Commission holds the final public hearing and then adopts the final millage rates and the budget.

The monitoring stage really occurs year round. In October, staff load the adopted budget amounts into the automated financial system for implementation of the budget. In addition, authorized positions are rolled into the payroll/personnel system to provide the guideposts for hiring. The budget document is prepared to reflect the plans approved by the Commission. The adopted millage rate is transmitted to Broward County for preparation of billing and collection. The City Manager's Office in conjunction with budget staff determines the appropriate monitoring procedures for the fiscal year (i.e. approval process for budgeted purchases, review of budget shifts within a single department's budget). All during the fiscal year, departmental and Finance Department staff review purchase and personnel requisitions, have access to financial information on-line real-time, and monitor Commission agendas for financial impacts. The City Manager holds periodic budget reviews with each department to ascertain the status of budgeted revenues and expenditures. The Commission considers allocations from General Fund Contingencies and other budget amendments to reflect adjustments in appropriations when necessary based upon actual expenditures during the year.

Refer to pages 32 and 33 for a summary of the budget process and calendar.

AMENDMENT PROCESS

After the budget has been adopted in September, there are two ways that it can be modified during the fiscal year.

For changes within a department's appropriation within the same fund, the City Manager has the authority to authorize changes. The Assistant City Managers review all purchases which require an adjustment of \$2,000 or more. A formal process has been utilized for many years for capital outlay in particular. As the budget process gets underway, departments prepare estimates for current year expenditures. As they are submitted to the budget office, they become the guidepost for all subsequent purchases regardless of the original appropriation. Such estimates are prepared initially in April and revised in June and August.

For modifications which cross departmental and/or fund lines, only the City Commission can approve such changes. This process includes allocation of budgeted General Fund contingencies. The request is placed on a regular consent agenda and requires a majority vote of the Commission.

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CAPITAL IMPROVEMENT PLAN

Expenditures for capital improvements are not included directly in the operating budget. The Annual Operating Budget includes and identifies amounts to be transferred to capital project funds from operating sources. The appropriations for capital improvements are budgeted as part of the Capital Improvement Plan (CIP) and prepared and approved separately. A Capital Improvement Program Committee, consisting of department heads and the Assistant City Managers, meets on a regular basis to oversee a five-year CIP, which is updated and presented yearly to the City Commission for approval. A separate CIP document is available which details each project, its purpose, funding sources, timetable, and its effect on future operating budgets. The first year of the CIP is referred to as the capital budget. The CIP and Annual Operating Budget are closely linked as the budget assumes the cost of maintaining and operating new facilities as they are constructed within the CIP. The department representative on the CIP Committee is responsible for incorporating any needed funding for completed projects into the operating budget. Capital projects are budgeted and accounted for in a number of funds. A summary of the CIP is provided beginning on page 165.

There are many differences between the operating budget and the capital budget. The operating budget includes expenses that are generally of a recurring nature and are appropriated for one year only. It provides for the provision of all City services, but does not result in the addition of major, physical assets for the community. The capital budget includes one-time costs for projects that may last several years and result in major physical assets being added in the community.

DEBT POLICY AND ADMINISTRATION

There is no statutory or charter debt limitation. The City has established its own policies regarding the utilization of debt instruments. Debt is used for a variety of purposes and in a variety of ways. The principal use of debt by the City has been for making capital expenditures. Because the use of public capital stretches over many years, it is appropriate that those who enjoy the benefits should also pay the costs. This general principle of intergenerational equity, however, must be applied cautiously. The public capital of one generation may be regarded as a dubious asset by the next. Why should those who did not choose to make the expenditures pay for them? Any capital expenditures, the continuing merit of which is in doubt, might more appropriately be paid for by those who chose to make the expenditure. Moreover, this reservation accords with financial conservatism as a public debt based on unwanted capital expenditures is not of very good quality. Another more pragmatic qualification to this general principle is that short-lived capital expenditures may be more easily and appropriately fitted into current budgets than paid for by borrowing. The Commission has agreed to issue debt for recapitalization of existing assets and for most of the Water and Sewer Master Plan. The City determined that the needs for these improvements were such that borrowing was warranted to expedite the implementation of these projects.

The solid financial position of the City along with application of the most current financial management practices has permitted the City to obtain very favorable bond ratings and, consequently, lower interest rates. The City has adopted the following policy statements as guidelines for the use of debt:

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1. No borrowing of short-term debt for support of routine operations is to be used unless borrowing can be obtained at a lower rate of interest than invested funds and funds are not available for the routine operations.
2. Debt payment shall not exceed the anticipated useful life of an improvement and in no case exceed 30 years.
3. Bond issues shall be scheduled to level annual debt service requirements so that borrowing costs are minimized. This may be modified based on the express purpose of spreading improvement costs equally over a long period of time so that future citizens become responsible for portions of the cost.
4. Efforts shall be made to maintain or improve the City's bond rating.
5. With each bond offering and at least annually, the City shall fully disclose its financial position and fiscal management practices.

The following policy statements have been adopted by the City as operating guidelines for the level of debt for all direct non-self-supported debt:

1. Direct, non-self-supported debt shall not exceed 3% of assessed valuation.
2. Direct, non-self-supported debt shall not exceed \$750 per capita.
3. Direct, non-self-supported and overlapping debt shall not exceed 5% of assessed valuation.
4. Annual debt service requirements shall not exceed 10% of the annual budget.
5. Average annual bond maturities shall not exceed 15 years.
6. Where required, debt services equal to the highest scheduled principal and interest payment shall be maintained (except assessment debt) or debt service reserve insurance will be obtained.

A summary of the City's outstanding long term debt related to capital improvement (except assessment debt) as of October 1, 2002 is as follows:

	Bonds Outstanding	Interest Rate Range	Final Maturity	BOND RATING		
				Standard & Poor's	Moody's	Fitch
General Obligation	\$46,100,000	4.00 - 7.00	2017	AA	Aa2	N/A
Excise Tax	26,580,000	2.50 - 6.60	2009	A+	A1	N/A
Tax Increment	4,415,000	4.70 - 6.20	2012	AAA*	Aaa*	N/A
Sanitation	4,945,000	4.35 - 5.40	2015	N/A	A1	A
Sunshine State						
Loan Pool	<u>11,785,000</u>	Variable	2018	N/A	N/A	N/A
TOTAL	<u>\$93,825,000</u>					

*Repayment of the tax increment bonds is insured, reflecting the triple rating.

General Obligation Bonds are secured by the full faith and credit of the City. The outstanding General Obligation Bonds will be repaid from ad valorem taxes. The Excise Tax Bonds are secured by a pledge of certain utility service, cigarette, and franchise taxes. Tax increment bonds are secured by property taxes and a secondary pledge of Parking revenue.

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FUND BALANCE POLICY

The City of Fort Lauderdale has established a practice of maintaining and ensuring minimum levels of fund balance. In the General Fund, the City budgets \$1.5 million as working capital in addition to a base level of \$1.8 million for contingencies. The amount of the budgeted fund balance is set by the Commission considering the need for unreserved, undesignated amounts against the political consideration of a reasonable property tax levy. In the enterprise funds, provision is made for operating working capital on top of amounts for debt service and replacement reserves.

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Insert vision page

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LINKAGES BETWEEN VISION, MISSION, PRIORITIES, AND GOALS/OBJECTIVES

The City of Fort Lauderdale strives to maintain linkages between its vision statement, departmental mission statements, budget priorities, departmental goals and objectives, and resource allocations. The vision statement has set the stage for departmental mission statements, which provide a long-range view of each department's role in achieving the vision. For FY 2002/2003, the City Commission identified some key budget priorities, which are pertinent to the next twelve months of City activity. These include implementation of the Water and Sewer Master Plan; the enhanced General Capital Improvement Program and the Northwest Progresso Flagler Heights Community Redevelopment Area (NWPFH CRA) five-year plan; the opening of new park bond facilities; and providing services to the neighborhoods that became part of the City in September 2002. To address these priorities, departmental objectives for the fiscal year indicate what actions City departments will take during the fiscal year to fulfill the Commission's expectations. The allocation of additional resources to meet these objectives is summarized in the Budget Message, the Executive Summary, and in the Departmental Budgets section.

In addition to Commission priorities, the Vision Statement foresees, for example, "the high level of cooperation among residents, businesses, schools, religious organizations and the City allow the planning and implementation of programs that enhance the quality of life." In the departmental section of this document, the goal of the Community Planning and Neighborhood Services Division of Community and Economic Development, and in its new location in Public Services under the Construction Services Division, is to "develop and achieve community consensus on how to allocate resources that will sustain, manage and enhance growth of the City." The Division of Administration and Special Facilities of Parks and Recreation has a goal "to produce cutting edge festivals and events that have a reputation for high standards of quality and excellence." The Fire-Rescue Operations of the Fire-Rescue Department has an objective to "reduce emergency response times, where practical, with cost effective technology, resource management and quality assurance programs."

Other key areas of the City's vision statement which have translated into specific responses in the FY 2002/2003 budget include:

- "model of intergovernmental cooperation" (See departmental objectives for the City Attorney's Office related to City, State, and Federal laws; the mission statement for the City Clerk Department; the City Manager's Department objective related to Federal and State legislative programs; the Community Planning and Neighborhood Services Division work on annexation programs; and the Police Department objective related to dispatch with the Sheriff's Office).
- "using rapidly changing technology" (See departmental goals of Administrative Services; the Finance department objective related to a new Payroll/Personnel system; the objective of Public Services to continue the development of a 5-year Master Plan; and the Public Information Office of the City Manager Department objective related to city presence on the Internet).
- "provide a desirable setting for families to live, work and play" (See departmental objectives for Community Inspections, Fire-Rescue, and Police).

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BUDGET PROCESS

MONTH	FORECAST STAGE	REQUEST STAGE	REVIEW STAGE	ADOPTION STAGE	MONITORING STAGE
OCT					Load Budget/FAMIS
					Roll Positions
					Prepare Budget
					Transmit Millage
					Monitoring Procedures
					Budget Adv. Bd.
NOV					On-Line Review
					Review Requisitions
					Commission Agendas
					Publish Budget
					Budget Adv. Bd.
DEC	Outline				On-Line Review
					Review Requisitions
					Commission Agendas
					Budget Adv. Bd.
JAN	Prepare				Budget Coordinators
					Review Requisitions
					Commission Agendas
					Budget Adv. Bd.
FEB	Present	Reorganizations			On-Line Review
	to	Position Changes			Review Requisitions
	Heads				Commission Agendas
					Budget Adv. Bd.
MAR	Firm Up	Train Staff	Review Reorganizations		On-Line Review
	Refine	Load Reorganizations			Review Requisitions
					Budget Adv. Bd.
APR	Prepare for	Department Requests			On-Line Review
	Commission				Review Requisitions
	Workshop				Budget Adv. Bd.
MAY	Commission		City Manager		On-Line Review
	Workshop		Adjustments for		Review Requisitions
			Commission Priorities		Budget Adv. Bd.
JUN			Management Team		Revise Dept.
			Meetings		Budget Adv. Bd.
JUL			Balance the Budget	City Mgr. Message	Budget Adv. Bd.
				Tentative Adoption	
AUG			Budget Advisory	TRIM Notice	Revised Departmental
					Projections
SEPT			Commission	Public Hearings	Budget Amendments
			Workshop	TRIM Ad	
				Final Adoption	

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FY 2002/2003 BUDGET PREPARATION AND IMPLEMENTATION CALENDAR

DATE: 2001

ACTIVITY

October Departmental Budget Coordinators meet to critique the FY 2001/2002 process.

DATE: 2002

February Departments prepare proposed reorganization and position change requests.
Departments review the first quarter revenue and expenditure data.
City Manager conducts first quarter budget review meetings with departments.
Initial Budget Discussions held with the City Manager and Assistant City Managers.
Initial Budget Discussion held with the Executive Management Team.

March Training is available to all budget preparers.
Departments begin preparation of budget requests.
Budget briefing is held for the Executive Management Team.

April 8 Formal budget kickoff occurs with all forms and spending guidelines distributed.

May 3 Departments submit budget requests.
City Commission reaches consensus on FY 2002/2003 budget priorities.

May City Manager conducts program budget reviews with departments.
Budget Office conducts technical budget reviews with departments.

June Executive Management Team receives update of budget development status.
Departments revise budget estimates.
City Commission receives more detailed budget forecast.

July 1 Broward County Property Appraiser certifies the property tax roll.

July 16 City Manager presents his proposed budget to the City Commission.

August Property Appraiser distributes Truth in Millage (TRIM) notices to all property owners.
Departments revise budget estimates.

September Budget Advisory Board adopts final recommendations for FY 2002/2003.

September 4 City Commission holds 1st public hearing and tentatively adopts millage rate and budget. Final fire special assessment is set.

September 13 City advertises budget in newspaper of record to meet TRIM requirements.

September 17 City Commission holds 2nd public hearing and adopts final millage rate and budget.

October 1 Beginning of FY 2002/2003 fiscal year.